Minister's Message

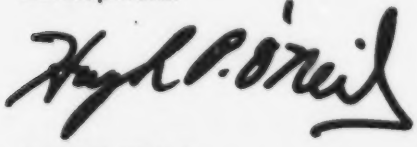
I am pleased to present the Ontario Development Corporation's Annual Report for the fiscal year 1984/85.

The Ontario Development Corporations share the high risk of small business development by assisting and encouraging Ontario's entrepreneurs. Responding to the unique needs and problems encountered by small business, we foster innovation, job creation, and regional development.

A growing economy needs new, innovative firms entering the marketplace. The Development Corporations encourage these start-ups by providing advice and sharing the very high financial risk of new business development.

Job creation and job maintenance is one of the most critical political, economic, and social issues of the eighties. It is well documented that a strong, dynamic small business sector is the key to creating new jobs and promoting economic growth.

As the recently appointed Minister of Industry, Trade and Technology, I look forward to working with the staff and clients of the Development Corporations to encourage new jobs, new ideas, and new development.



Hugh P. O'Neil
Minister of Industry, Trade and Technology
November, 1985

Statement of the Chief Executive Officer

Since 1963, the Ontario Development Corporations have served the small business community of Ontario by providing advisory and financial services to secondary manufacturing and tourist industries.

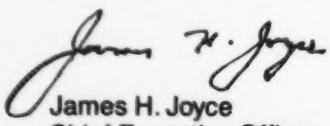
By far the most broadly based service provided by the Development Corporations is counselling to small business. This service includes assisting entrepreneurs with the development of rudimentary business plans, and helping them to cope with marketing, production, costing, and other common small business problems. In an average year, over 3,000 Ontario small businessmen receive specific advice and direction from the Corporations' staff of skilled professionals.

Ontario's small manufacturers look to the Development Corporations for long-term financing of start-ups, plant expansions, and new technology and productivity improvements. Financial assistance is tailored to the specific needs of individual businesses, and may involve special repayment terms or incentives. During the 1984/85 fiscal year, the Development Corporations approved 665 loans and guarantees totalling $61 million for small and medium-sized industrial enterprises.

The Development Corporations also provide small businesses and new exporters with a revolving line of credit to finance export receivables. A total of $33.3 million was approved under this program in the 1984/85 fiscal year, for 107 new and existing ODC clients.

Financial assistance is also provided for Ontario's tourist industry, to help start new tourist facilities, and to expand and improve existing tourist operations. 171 tourist loans and guarantees were approved in the past fiscal year with a total value of $31.7 million.

The Ontario Development Corporation operates two former military bases as industrial parks. Northam Industrial Park, located in Cobourg and Huron Industrial Park, near Exeter, help stimulate regional development by providing rental space for 22 manufacturers with over 2,000 employees.



James H. Joyce
Chief Executive Officer

The Development Corporations

To the Ontario Development Corporation, Northern Ontario Development Corporation, Eastern Ontario Development Corporation, and to the Minister of Industry, Trade and Technology.

I have examined the combined balance sheet of the Development Corporations consisting of Ontario Development Corporation, Northern Ontario Development Corporation and Eastern Ontario Development Corporation, as at March 31, 1985 and the combined statements of operations and retained earnings for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Development Corporations as at March 31, 1985 and the results of their operations for the year then ended in accordance with the basis of accounting as described in note 1 to the financial statements applied, after giving retroactive effect to the changes in the method of accounting for interest income and long term investments as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

In accordance with section 24 of the Development Corporations Act, a joint report on the audit has been made to the Development Corporations and to the Minister.

J.F. Otterman

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor.

Toronto, Ontario,
August 27, 1985.

Combined Balance Sheet

as at
March 31, 1985

Assets

	1985 $	1984 $
Cash and short term deposits	**35,285,198**	31,700,845
Loans receivable (notes 1a and 3)	**318,434,089**	290,223,517
Long term investments (note 4)	**5,222,700**	2,165,200
Fixed assets (note 5)	**3,953,307**	4,461,604
Other assets (note 6)	**781,085**	551,425
Total assets	**363,676,379**	329,102,591

Liabilities

Accounts payable and accrued charges	**529,424**	425,337
Advances from the Province of Ontario	**266,591,198**	256,456,771
Deferred revenue (notes 1d and 2a)	**26,281,869**	11,962,439
Total liabilities	**293,402,491**	268,844,547

Shareholder's Equity

	1985 $	1984 $
Share capital – authorized and issued; 7,000 shares with a par value of $1,000 each	**7,000,000**	7,000,000
Retained earnings	**63,273,888**	53,258,044
	70,273,888	60,258,044
Total liabilities and shareholder's equity	**363,676,379**	329,102,591

See accompanying notes to combined financial statements.

On behalf of the Boards:

Director

Director

Director

Combined Statement of Operations

for the year ended March 31, 1985

	1985 $	1984 $
Revenue		
Interest	**22,026,616**	18,309,893
Net income from Industrial Parks (note 8)	**1,239,171**	483,896
Rental income	**—**	50,094
	23,265,787	18,843,883
Expenses		
Interest	**19,764,787**	21,149,599
Loans written off and guarantees honoured	**12,682,144**	10,992,098
Guarantee interest subsidy	**168,583**	388,847
Administration (note 1g)	**6,808,032**	6,290,359
	39,423,546	38,820,903
Loss before recoveries from the Province of Ontario	**(16,157,759)**	(19,977,020)
Recoveries from the Province of Ontario (note 7)	**26,173,603**	27,493,570
Net income for the year	**10,015,844**	7,516,550

See accompanying notes to combined financial statements.

Combined Statement of Retained Earnings

for the year ended March 31, 1985

	1985 $	1984 $
Balance, beginning of year, as previously reported	**54,312,521**	46,305,048
Retroactive changes in accounting policy:		
Deferred interest income (note 2a)	**(1,631,127)**	(563,554)
Long term investments (note 2b)	**576,650**	—
Balance, beginning of year, as restated	**53,258,044**	45,741,494
Net income for the year	**10,015,844**	7,516,550
Balance, end of year	**63,273,888**	53,258,044

See accompanying notes to combined financial statements.

Notes to the Combined Financial Statements

March 31, 1985

1. SIGNIFICANT ACCOUNTING POLICIES

a) General
The combined financial statements include the accounts of Ontario Development Corporation, Northern Ontario Development Corporation and Eastern Ontario Development Corporation.

b) Loans written off and guaranteed loans paid
The write-off of loans and the honouring of guarantees are funded by the Province through a voted appropriation. Therefore, the Corporations make no provision for these. Had a provision for doubtful loans been made the Corporations estimate that $22,400,000 (1984 – $21,994,000) would have been recorded.

c) Revenue
Interest revenue is recognized using the accrual basis of accounting except in the case of loans where the receipt of interest is deferred for one year or more. For these loans, revenue is recognized as income only on receipt, as described in note 2a.

d) Deferred revenue
The Corporations have received transfer payments from the Province which have in turn been disbursed as loans. As all these loan agreements contain a provision for either deferred repayment or forgiveness, the transfer payments have been treated as deferred revenue which will be recognized as revenue if and when payments are received. Interest accrued on loans for which repayment has been deferred is also recorded as deferred revenue, as described in note 2a.

e) Fixed assets and depreciation
Equipment purchases are charged to expense in the year of acquisition, except for the Industrial Parks operations, for which all such amounts are capitalized. Depreciation of fixed assets is provided for on a straight-line basis, using rates of from 5 to 20 per cent per annum for building and improvements, and 20 per cent per annum for equipment.

f) Long term investments
The Corporations account for long term investments on the cost basis.

g) Administration expenses
These expenses are reflected on a cash basis which is modified to allow an additional 24 days to pay for goods and services pertaining to the fiscal period just ended. In this regard, payments to employees for the pay period which overlaps the fiscal year end are prorated between the two years.

Details of administration expenses are as follows:

	1985 $	1984 $
Salaries and staff benefits	**5,399,609**	5,012,412
Transportation and communication	**576,800**	528,118
Services	**511,370**	423,524
Supplies and equipment	**275,097**	326,305
Total expenses reimbursed by the Province	**6,762,876**	6,290,359
Other expenses	**45,156**	—
	6,808,032	6,290,359

h) Wholly-owned subsidiaries, not consolidated
The Northern Ontario Development Corporation owns all the issued shares of Minaki Lodge Resort Ltd. and Minaki Development Company Limited. The Corporations have not consolidated the operations of these subsidiaries because there is an intention of transfer ownership to the Ministry of Tourism and Recreation and any net income or losses of the subsidiaries will not accrue to the Corporation.

2. RETROACTIVE CHANGES IN ACCOUNTING POLICY

a) The previous policy of recognizing all interest revenue on the accrual basis has been modified for loans where the receipt of interest is deferred for one year or more. For these loans interest revenue is now deferred and recognized only when received. The effect of this change on the current year's operations has been to reduce net income for the year by $2,232,301.

This change has been applied retroactively, resulting in a reduction of $1,716,671 (1983-84 $1,153,207; pre 1983-84 $563,554) to net income and retained earnings as previously reported. The cumulative effect on retained earnings as at March 31, 1985 is a reduction of $3,949,062.

b) The previous policy of accounting for all investments in which the Corporations have a significant influence on the equity basis has been changed. They are now accounted for on the cost basis, which is considered more appropriate to the nature of the investments. This change has had no effect on the current year's operations.

The change to the cost basis has been applied retroactively, resulting in an increase of $576,650 to net income and retained earnings at March 31, 1984, as previously reported.

3. LOANS RECEIVABLE	1985 $	1984 $
Term	**112,996,494**	105,867,321
Term, incentive	**108,464,065**	119,515,672
Agency	**74,142,645**	48,051,771
Forgivable	**11,302,630**	8,994,641
Other	**11,528,255**	7,794,112
	318,434,089	290,223,517

Included in Agency loans is a loan of $15,000,000 by the Ontario Development Corporation to Canada Development Corporation and John Labatt Limited for the construction of research facilities on the Allelix site (note 4). The borrowers may transfer title of the facilities to the Corporation in lieu of the repayment of principal and interest due on March 31, 1992.

4. LONG TERM INVESTMENTS

a) Allelix Inc.
The Ontario Development Corporation owns a 20 per cent equity interest in Allelix Inc., a joint venture with the Canada Development Corporation (50 per cent) and John Labatt Ltd. (30 per cent), which conducts pure and applied research in industrial and agricultural applications of biotechnology.

Transactions since acquisition consist of:

200 shares, at cost	$ 200
Research payments	4,960,000

Should the research payments not be recoverable, any loss to the Corporation will be reimbursed by the Province.

b) HSA Systems, Inc.
The Ontario Development Corporation owns a 35 per cent equity interest in HSA Systems Inc. having a cost of $262,500. The other 65 per cent interest is held by CapVest Limited, a subsidiary of Canada Development Corporation. HSA Systems Inc. was engaged in research and development, manufacture and marketing of electrochemical reactor systems. Operations have been wound down, all tangible assets sold, and no further financial benefit or loss is anticipated.

The Province will reimburse the Corporation in 1985-86 for losses incurred.

5. FIXED ASSETS

Fixed assets are stated at acquisition cost less accumulated depreciation as follows:

	1985 $			1984 $
	Cost	Accumulated Depreciation	Net	Net
Land – Sheridan Park	222,981		222,981	222,981
Land	341,514		341,514	337,648
Buildings and improvements	10,900,069	7,657,612	3,242,457	3,778,887
Equipment	687,768	541,413	146,355	122,088
	12,152,332	8,199,025	3,953,307	4,461,604

6. OTHER ASSETS

Other assets consist of the following assets obtained as a result of loan defaults by borrowers:

	1985 $	1984 $
Investment in shares, at cost	301,498	59,000
Land and buildings, at 1977 appraised value plus subsequent additions at cost	131,528	131,528
Net investment in lease	348,059	360,897
	781,085	551,425

7. RECOVERIES FROM THE PROVINCE OF ONTARIO

The Province reimbursed the Corporations for the following expenditures:

	1985 $	1984 $
Interest expense	**6,560,000**	9,822,266
Administration	**6,762,876**	6,290,359
Performance loan forgiveness	**—**	579,864
Term loans written off	**9,404,769**	6,339,648
Guarantees honoured	**3,277,375**	4,072,586
Guarantee interest subsidy	**168,583**	388,847
	26,173,603	27,493,570

Interest expense is only reimbursed where the cost of funds exceeds interest charged on the loan.

8. INDUSTRIAL PARKS OPERATIONS

	1985 $	1984 $
Rent revenues, utility charges and interest	**4,080,710**	3,390,177
Operating expenses	**2,841,539**	2,906,281
Net income	**1,239,171**	483,896

9. CONTINGENT LIABILITIES

a) As at March 31, 1985 contingent liabilities arising from guarantees of bank loans and other guarantees amounted to $63,867,075 (1984 – $56,195,118). There are additional contingent liabilities resulting from guarantees of loans for which disbursements had yet to be authorized in the amount of $32,678,720 (1984 – $22,924,200).

b) A legal action claiming aggregate damages of $4,500,000 plus interest has been instituted against Northern Ontario Development Corporation, Ontario Development Corporation, and others by a former shareholder of Minaki Lodge Resort Ltd. and Minaki Development Company Limited. Legal counsel of the Corporations is of the opinion that the claim is without merit.

10. COMMITMENTS

Loans authorized but not disbursed as at March 31, 1985 amounted to $105,952,595 (1984 – $96,405,571).

In conneciton with the investment in Allelix there is a commitment for additional research contributions of $10,040,000, to be financed by BILD.

11. COMPARATIVE FIGURES

Certain of the 1984 figures have been reclassified to conform with the 1985 financial statement presentation.

Boards of Directors

The affairs of each of the three Development Corporations are under the management and control of Boards of Directors chosen from the small business community and appointed by the Lieutenant Governor in Council. The Boards are responsible to the Minister of Industry, Trade and Technology.

Ontario Development Corporation

James H. Joyce, Toronto (Chairman)
Alex Siversky, Hawkesbury (Vice-Chairman)
Sabina Adams, Sault Ste. Marie
Alex Christie, Toronto
John G. Dubien, Kapuskasing
Lloyd S.D. Fogler, Q.C., Toronto
C. David Gifford, Peterborough
Janet E. Guest, Renfrew
Douglas J. Johnson, Kenora
Michael D. Lipton, Q.C., Toronto
Marnie A. McGarry, London
William, C. Munnoch, Woodstock
William S. Thomson, Oakville

Eastern Ontario Development Corporation

Alex Siversky, Hawkesbury (Chairman)
C. David Gifford, Peterborough (Vice-Chairman)
Aurele Clement, Cornwall
Janet E. Guest, Renfrew
John F. Guthrie, Belleville
Arnie Jackson, Carleton Place
William A. Kelly, Kingston
Robert F. Leach, Belleville
Lorne Mallory, Brockville
Antonio Mariani, Ottawa
Jean Guy Rivard, Orleans
C. Ian Ross, Ottawa
Philip Sweetnam, Stittsville

Northern Ontario Development Corporation

Douglas J. Johnson, Kenora (Chairman)
Gerald Brousseau, Timmins (Vice-Chairman)
Sabina Adams, Sault Ste. Marie
Gordon J. Biddie, Parry Sound
Pat Birnie, New Liskeard
Rodger Bowness, North Bay
Michael Brophy, Rutherglen
Andrew F. Coffey, Thunder Bay
John G. Dubien, Kapuskasing
Patrick Gamble, Thunder Bay
A. Mills Paton, Thunder Bay
Edward G. Skinner, Sudbury
Robert G. Topp, Sault Ste. Marie
Harry Vanderweerden, Gore Bay

The Ontario Development Corporations

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(416) 965-4622

Ontario Development Corporation

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Willowdale	Suite 480 5 Fairview Mall Drive M2J 2Z1 (416) 491-7996
Hamilton	119 King Street West P.O. Box 2112 L8N 3Z9 (416) 521-7785
Kitchener	Suite 507 Canada Trust Building 305 King Street West N2G 1B9 (519) 744-1991
Peel Region	Suite 608 201 City Centre Drive Mississauga L5B 2T4 (416) 279-9150

Northern Ontario Development Corporation

Thunder Bay	435 James Street S. P7C 5G6 (807) 475-5322
Timmins	273 Third Avenue P4N 1E2 (705) 264-1323
Sudbury	199 Larch Street P3E 5P9 (705) 675-4333

Eastern Ontario Development Corporation

Kingston	Suite 308 1055 Princess Street K7L 5T3 (613) 547-2251
Ottawa	Suite 404 56 Sparks Street K1P 5A9 (613) 566-3707
Peterborough	139 George Street N. K9J 3G6 (705) 742-3490